

# Public School Credit Enhancement Board

**August 3, 2017**

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**1** Office of the Governor



# Approval of June 1, 2017 Minutes



# Staff Reports

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**3** Office of the Governor





<b>February 7, 2017</b>	<b>3:00 PM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>April 25, 2017</b>	<b>11:00 AM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>June 1, 2017</b>	<b>10:30 AM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>August 3, 2017</b>	<b>1:30 PM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>*September 13, 2017</b>	<b>1:30 PM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>*October 5, 2017</b>	<b>1:30 PM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>*November 2, 2017</b>	<b>1:30 PM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>
<b>*December 7, 2017</b>	<b>1:30 PM</b>	<b>1700 W. Washington Historic Senate Room Phoenix, Arizona 85007</b>

# 2017 Meeting Calendar



### Attestation \*

By checking yes below, the applicant attests to having read and reviewed the sample Terms and Conditions form. (Sample Terms and Conditions form may be found on the Credit Enhancement Program's "Resources" page under "Sample Documents.")

☐ Yes, the applicant has read and reviewed the sample Terms and Conditions form.

### Discrepancies \*

If the applicant foresees any issues with the sample Terms and Conditions form, please indicate those below. If there are no issues, please write N/A.

Confirm Accuracy and Completeness

**By checking yes below, the applicant confirms that the accuracy and completeness of the information in this application has been certified by the Chief Executive Officer or Chief Financial Officer of the School. \***

☐ Yes, the information in this application is accurate, complete, and has been verified by the Chief Executive Officer or Chief Financial Officer of the School.

# Application Changes



### Financing Team \*

Please identify the following members of the applicant's financing team below: Borrower's Counsel, Bond Counsel, Bond Issuer, Underwriter, and Financial Advisor (if applicable).

# Application Changes



A.R.S. § 15-2158 requires the Arizona School Facilities Board staff to submit, within 30 days after the last day of each calendar quarter, a quarterly report on the implementation of the Arizona Public School Credit Enhancement Program.

Included in this report are:

- The name of the public school or charter by or on behalf of which the debt obligation was issued.
- The date of the issuance.
- The original amount of the issuance.
- The interest rate of the issuance.
- The term length of the issuance.
- The credit rating of the issuance.
- The amount of principal and interest due on the debt obligation in the current fiscal year.
- The purpose for which the debt obligation was issued, separately delineated for obligations to construct new capital facilities, renovate existing capital facilities or refinance existing debt obligations.
- The current outstanding principal of the debt obligation.
- A listing of all guaranteed financings subject to section 15-2156 in the prior quarter, including the amounts disbursed for payment of principal and interest for the financings and the terms and conditions to which the school is subject.
- The current balance of the Arizona Public School Credit Enhancement Fund.
- The current program leverage ratio.

# Quarterly Reports

Arizona Public School Credit Enhancement Program  
Quarterly Report - 6/30/2017

Guaranteed Financings Outstanding or Approved

Applicant/Borrower	Date Approved	Approved Amount	Date Issued	Description	Guaranteed Amount Issued	Maturity Dates	Interest Rates	Underlying Credit Rating	Enhanced Credit Rating	Principal and Interest Due in FY 2017	Use of Proceeds	Principal Outstanding
Academy of Math and Science	4/25/2017	\$24,808,821	6/22/2017	Series 2017A	\$23,465,000	2018 - 2052	4% - 5%	BB	AA-	\$0	New construction and refinancing	\$23,465,000
Arizona Agribusiness and Equine Center <sup>1</sup>	4/25/2017	\$16,968,531										
Great Hearts <sup>2</sup>	6/1/2017	\$35,970,811										
Total		\$77,748,163			\$23,465,000							\$23,465,000

<sup>1</sup>Financing has been approved, but not yet issued.

<sup>2</sup>Financing had been approved, but not yet issued as of 6/30/2017. Great Hearts issued \$34,240,000 enhanced bonds on 7/13/2017.

Fund Balance and Statutory Ratios

Total Principal Amount of Outstanding Guaranteed Financings	Enhancement Fund Balance	Leverage Ratio (maximum 3.5:1)	Total Principal with Underlying Rating of BB- or Lower	% of Guaranteed Principal with Underlying Rating of BB- or Lower
\$23,465,000	\$104,362,981	0.22	\$0	0%

As of 6/30/2017, there are no guaranteed financings for which the program has been required to disburse funds to pay principal and interest.

# Quarterly Reports





## Quarterly Reports to Date

Calendar Year 2016(Q3) - No transaction activity

Calendar Year 2016(Q4) - No transaction activity

Calendar Year 2017(Q1) - No transaction activity

Calendar Year 2017(Q2) - Report due July 31, 2017

# Quarterly Reports





# Academy of Math & Science Closing Update







# Great Hearts Academies Closing Update





# Overview of S & P Program Credit Rating



# WHAT ARE CREDIT RATINGS?

Credit ratings are opinions about credit risk. Our ratings express our opinion about the ability and willingness of an issuer, such as a corporation or state or city government, to meet its financial obligations in full and on time.

Credit ratings can also speak to the credit quality of an individual debt issue, such as a corporate or municipal bond, and the relative likelihood that the issue may default.

Credit ratings are not absolute measure of default probability. Since there are future events and developments that cannot be foreseen, the assignment of credit ratings is not an exact science. Credit ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or debt issue will default.

## Credit Ratings

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**Table 1****Long-Term Issue Credit Ratings\***

Category	Definition
AAA	An obligation rated 'AAA' has the highest rating assigned by S&P Global Ratings. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.
AA	An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.
A	An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.
BBB	An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.
BB; B; CCC; CC; and C	Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposures to adverse conditions.
BB	An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions which could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.
B	An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB', but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

# S&P Rating Scale



- S&P publishes documents that explain the various factors that are used to determine credit ratings for different types of debt
- The Arizona Public School Credit Enhancement Program is rated under S&P's Long-Term Municipal Pool rating criteria

**How are credit ratings determined?**

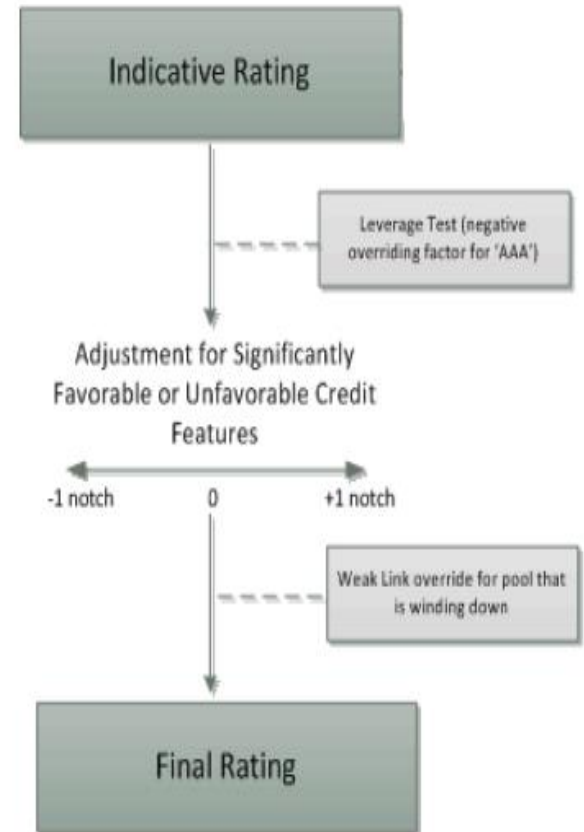
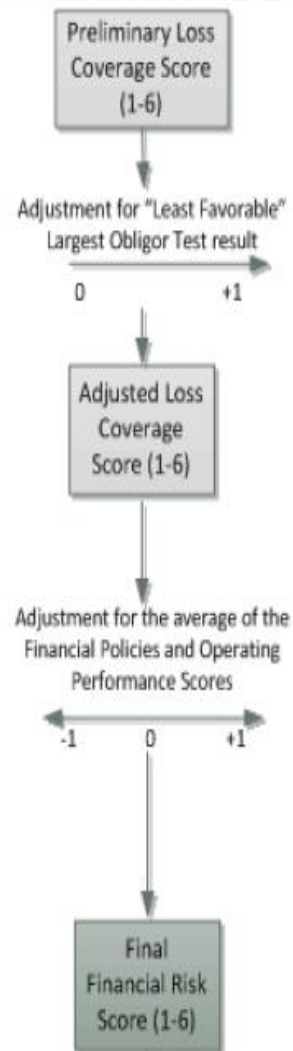
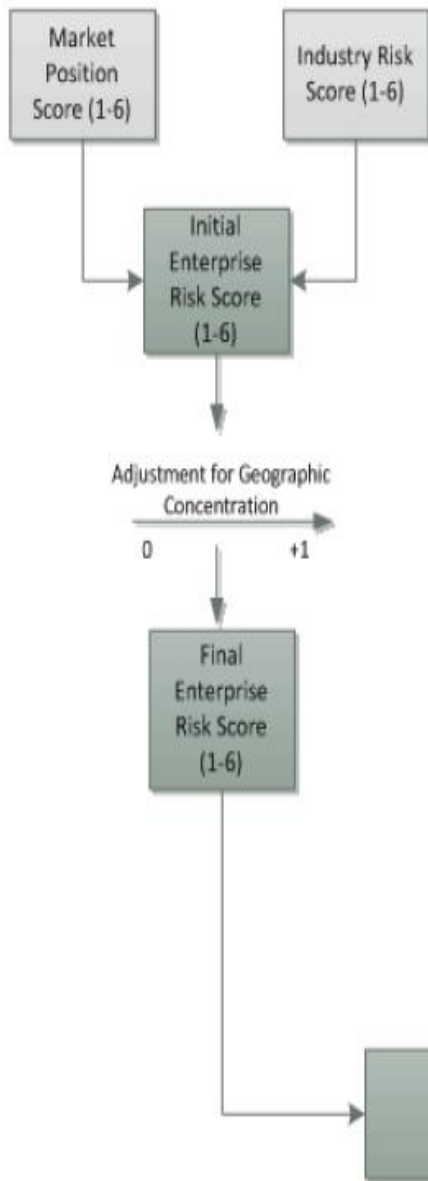
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Table 1

Determining The Indicative Rating Outcome For The Municipal Pool Program

Enterprise Risk Score	Financial Risk Score					
	1 Extremely Strong	2 Very Strong	3 Strong	4 Adequate	5 Vulnerable	6 Highly Vulnerable
1 Extremely Strong	aaa	aa+	aa-	a	bbb	bb
2 Very Strong	aa+	aa	a+	a-	bbb-	bb-
3 Strong	aa-	a+	a	bbb+	bb+	b+
4 Adequate	a+	a	a-	bbb	bb	b
5 Vulnerable	bbb+	bbb	bbb-	bb+	b+	b-
6 Highly Vulnerable	bbb-	bb	bb-	b+	b-	ccc

S&P Municipal Pool  
Rating Criteria





- “...the largest obligor test addresses credit stability in the context of occasional, large discrete defaults by individual obligors. Large exposures to a small number of defaulting issuers could threaten a pool program’s viability.”
- “The methodology measures the possible default of a minimum number of the largest obligor exposures within the loan portfolio”

## **Largest Obligor Test**

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The Board should also consider the impact of approving the proposed financing on the enhanced credit rating assigned to financings. The higher the enhanced credit rating assigned to guaranteed financings, the greater the benefit of the program to participants. The assumptions made by rating agency Standard and Poor's in an initial review of the program included that the program would have approximately 35 participants with an average enhanced financing of \$10 million each. The applicant's proposed financing is significantly larger than the average financing assumed in the initial rating analysis.

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- Enhancing large financings will not negatively impact the enhanced credit rating
- The program needs to enhance at least 10 total financings, so approving a large financing could limit the size of future financings
- Minimize the number of low-rated participants
- A default on an enhanced financing would ruin the enhanced rating

## Guidance from RBC

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**Questions?**

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# **Request for Extension of Closing Bonds**

## **Arizona Agribusiness & Equine Center**





- Arizona Agribusiness and Equine Center has requested an extension of closing bonds.
- Pursuant to rule 7-8-201(J), an applicant must issue the Guaranteed Financing within one hundred-twenty (120) days of the date of the letter granting approval for the Guaranteed Financing. The initial approval for the Guaranteed Financing will expire at the end of the 120-day period.
- AAEC was approved for financing on April 25, 2017.

## AAEC Extension



# Request to Review Program Rules





- The Program Rules were adopted by the Board on February 7, 2017. Since adoption of the rules, and with the closing of two deals, it is apparent that program rules should be updated to reflect program requirements and policies not contemplated as part of the initial rulemaking.

## Program Rules



# **Review and Action of Application #4 Basis Schools, Inc.**





\$71.4 million for refunding of existing debt and funding new facilities construction that will increase enrollment capacity

# Total Request

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- Expand capacity by 3,003 students
- \$61.2 million to be used to build, expand, or improve schools
  - \$18.1 million for construction of BASIS Scottsdale North, which will be designed to serve 600 students in grades 4-8, and is projected to grow to serve 950 students in grades 5-12
  - \$10.5 million for construction of BASIS Scottsdale Primary West, serving 600 students
  - \$11.6 million for construction and renovation on BASIS Phoenix Primary (600 students) and expansion of BASIS Phoenix by 103 students
  - \$17 million to expand capacity at BASIS Flagstaff, BASIS Goodyear, and BASIS Mesa (Expansion of 200 students each)
- \$10.2 million to refinance existing debt

## Impact of Proposed Financing



<b>Requirement</b>	<b>BASIS</b>
<b>Assigned a letter grade of A, or an equivalent successor classification</b>	<b>Verified</b>
<b>Proven instructional strategies and curricula that demonstrate high academic outcomes</b>	<b>Materials Provided</b>
<b>Verifiable enrollment demand, including the placement of prospective pupils on a waiting list</b>	<b>Attestation</b>
<b>Sound financial plan that contemplates operational costs and future enrollment growth</b>	<b>Financial Documents</b>
<b>Commitment to provide technical assistance to an underperforming school</b>	<b>Letter Submitted</b>

## Achievement District Qualification



- BASIS meets the Board criteria for conditional approval for credit enhancement
- Underlying credit rating of BB is expected to be assigned to the proposed financing

## Eligibility for Credit Enhancement

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- If approved as submitted, approximately 20% of the program's total capacity will be used to enhance the financing
- The program would remain in compliance with the maximum program leverage and credit rating ratios

## Impact on Credit Enhancement Program



**The Board has the following two options:**

1. Approval of the application to qualify as an Achievement District School  
(Staff recommendation)
2. Denial of the application to qualify as an Achievement District School

**If the Board approves the application to qualify as an Achievement District School, the Board has the following three options regarding the application for credit enhancement:**

1. Approval of credit enhancement for the full amount of the proposed financing of \$71.4 million
2. Approval of credit enhancement for an amount that is less than the full amount of the proposed financing
  - a. The amount that is proposed to be used for new projects is \$61.2 million
3. Denial of credit enhancement for any portion of the proposed financing

# Recommendation





# BASIS Schools, Inc.

Education redefined

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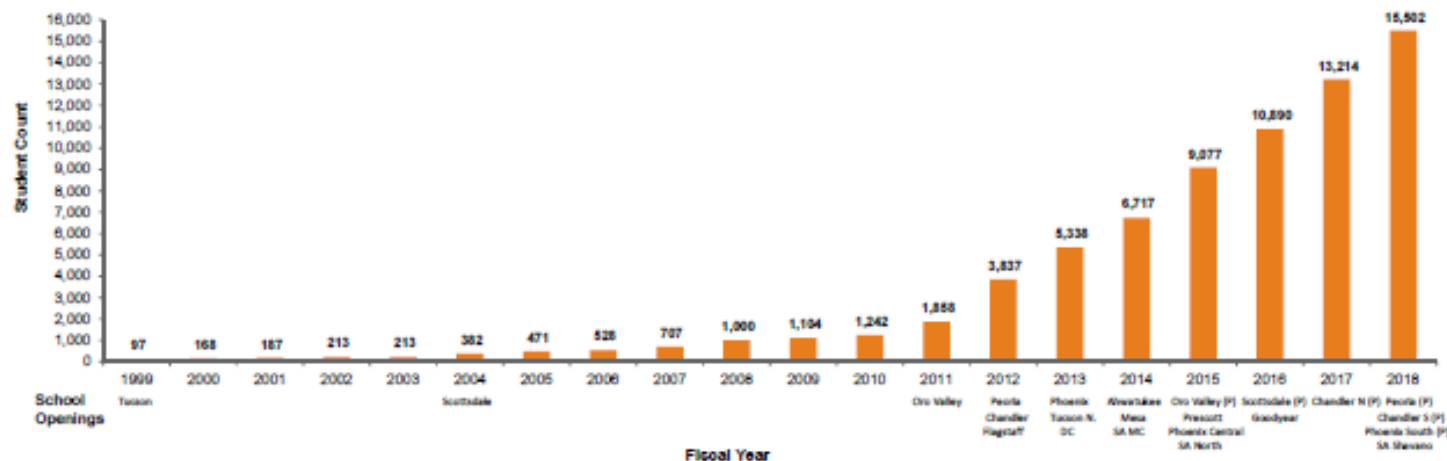
**The mission of BASIS charter schools is to empower students to achieve at globally competitive levels with a transformative K-12 academic program.**

We want what you want: the widest range of options that quality education can open.



# History

- Founded in Tucson in 1998
- 20 campuses in Arizona
- 15,000 K-12 students in Arizona
- 1400 teachers and staff
- 6,835 student on waitlist







## Curriculum

- Liberal arts curriculum
- Strong foundation in writing and history
- Accelerated math & science
- Unlimited student progress potential
- Mastery through comprehensive exams
- College coursework exposure (AP)
- Two degreed teachers in primary classrooms
- Teaching foundational knowledge and instilling a love of learning

## Achievements

U.S. News and World Report High School Ranking  
BASIS Scottsdale **1st in Nation**, 2017  
BASIS Tucson North **2nd in Nation**, 2017  
BASIS Oro Valley **3rd in Nation**, 2017  
BASIS Peoria 5th in Nation, 2017  
BASIS Chandler 7th in Nation, 2017

Washington Post, Most Challenging High Schools  
BASIS Oro Valley, **1st in Nation**, 2016  
BASIS Flagstaff, **2nd in Nation**, 2016  
BASIS Tucson North, 5th in Nation, 2016  
BASIS Scottsdale, BASIS Chandler, and BASIS Peoria, Top-Performing Schools with Elite Students

We improve even as we grow!

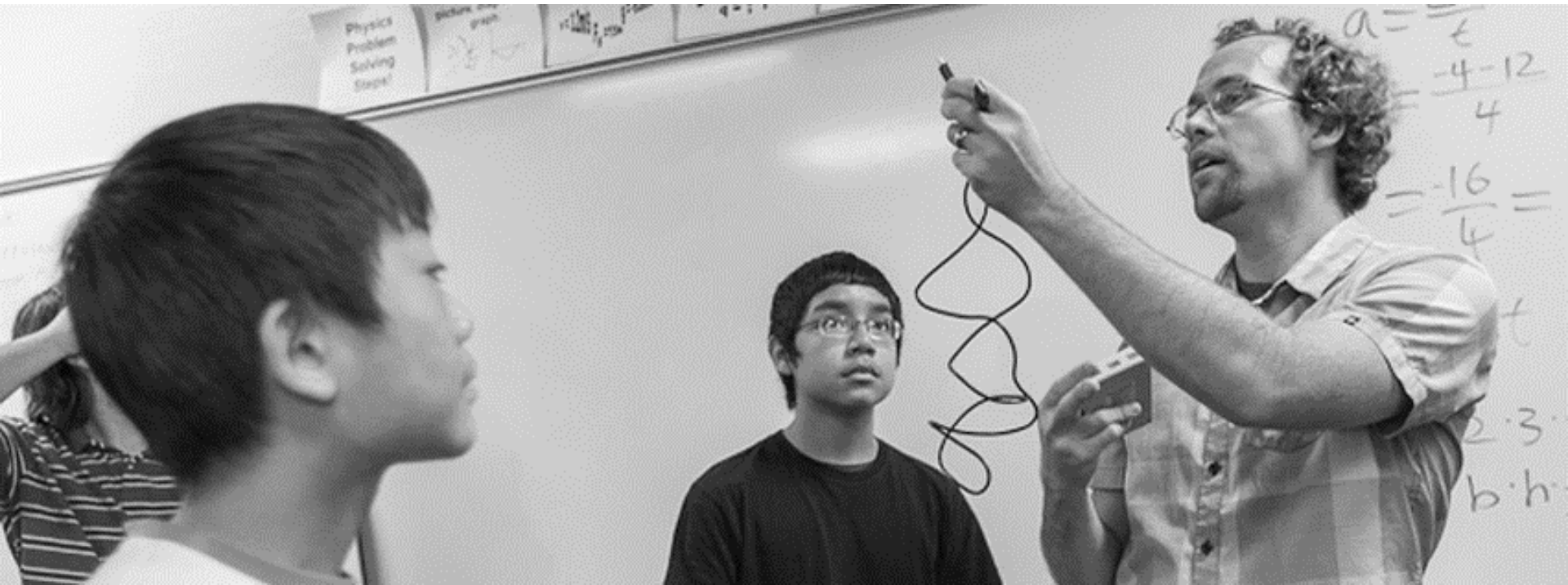
# Purpose of Funds

**Flagstaff**, renovation adding a 29,000 square-foot, two-story building on approximately 2 acres of land located at 1700 North Gemini Dr., Flagstaff.

Adding 200 students in grades K-2 opening in August 2018

**Mesa**, renovation adding a 15,000 square-foot, single-story building on approximately 1 acre of land located at 5100 S. Eastmark Pkwy in Mesa.

Adding 200 students in grades K-2 opening fall 2018







## Purpose of Funds

Opening in the fall of 2018:

**Phoenix Primary**, a renovation of existing building at 32<sup>nd</sup> street designed to serve 750 kids in grades K-4.

**Phoenix**, moving to a new location on the campus of Dream City Church, adding a 15,000 square foot building and 100 students.

**Goodyear**, renovation adding 20,000 square feet to an existing building to accommodate a growing and aging population. High school lab and instructional facilities at existing site, located at 15800 W. Sherman St. in Goodyear.

Adding 100 students immediately, and 100 more over the next five years.

**North Scottsdale**, at a location north of the 101, adding a building to serve 600 students in grades 4-8 in its first year, growing to 950 in grades 5-12 at its capacity.

**West Scottsdale**, along the 64<sup>th</sup> street corridor, is designed to serve grades k-4 adding 600 students.

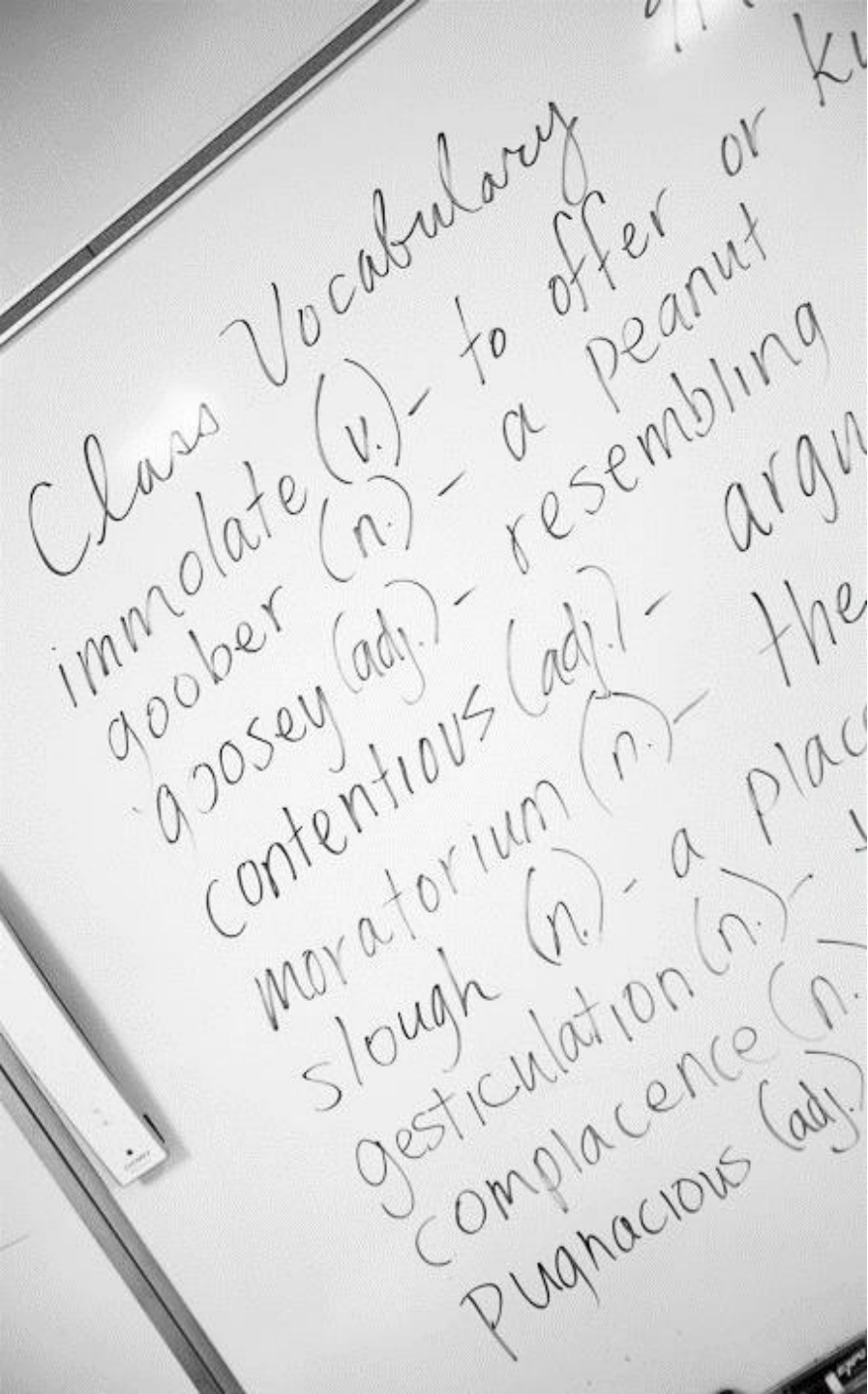


## Purpose of Funds

**Tucson North**, three acre parcel located adjacent to the existing building at 5740 E. River Road, Funds will reduce the density, with plans to build additional parking for growing population and an athletic complex.

**Phoenix South**, adding approximately 2,000 square foot addition for an indoor playground, ensuring indoor physical education.





## Purpose of Funds

**Ahwatukee** campus refinance, taking advantage of historically low interest rates to refinance prior existing debt, thereby adding \$100,000 annually for instructional spending on this campus.

IT equipment is a needed improvement, most urgently, for safety concerns at campuses. Additionally, computers and projectors need to be replaced at the existing campuses across Arizona.

Textbooks will be purchased for schools new in 2017 and for those projects scheduled to open in 2018.

## Helping Arizona



### Adding Quality Seats

Adds 3,000 students

Reduces the waitlist while sustaining quality of program offering

Has a direct benefit to 11 schools for increased capacity and improved facilities

Has a direct benefit to all 20 campuses with improved IT equipment and improved campus safety.



# Public Comments



# Adjourn

